
From Retail to E-Retail- An Overview of E- Retail in India

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Abstract:

The Indian Retail industry has primarily been dominated by the unorganized segment. During FY16, the unorganized retail accounted for about 90% of the total retail revenue. Improving economy, changing demographic profile, increasing disposable incomes in hands of the middle class, changing tastes and preferences and growing urbanization along with rising discretionary spends are the main growth drivers in the organized retail market in India. In 2016, the sale of physical goods via digital channels in India amounted to 16.07 billion U.S. dollars in revenues. According to ASSOCHAM, the value of online retail purchases made by consumers in India is projected to cross USD100 million by 2017. This research paper is an attempt to have overview of E-Retailing prospects in India.

Key words: Retail, E-commerce, E-Retail.

Introduction

The Indian retail industry has emerged as one of the most dynamic and fast-growing industries due to the entry of several new players in the recent times along with rising income levels, growing aspirations, favorable demographics and easy credit availability. It constitutes over 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment and is valued at USD 672 billion. Globally, India is fifth-largest global destination in the retail space and is growing at a rate of 12% per annum.

Over the last two decades, the size, scope and complexity of retailing has undergone considerable change. The retail industry can broadly be classified into two categories: Organized and Unorganized.

Organized Retail is characterized by high investment requirements, large premises, trained staff where retailers are licensed and are registered to pay taxes to the government.

Unorganized Retail refers to the traditional form of retail often situated near residential areas. It is generally characterized by low rentals, low tax payouts with most it being owner-managed and employing personal capital. It includes formidable mix of conventional Kirana shops, general stores, mom-&-pop stores, paan-beedi shops and other small retail outlets.

According to IBEF industry study, currently, organized retail market is valued at about USD 60 billion, only about 9% of the sector, 1% share of E-Retail sector, where as unorganized retail market holds the rest 90%. India's organized retail penetration is much lower compared with other countries, such as the United States which has organized retail sector penetration of 85%.

Objectives of the study:

1. To develop an insight of Retail sector in India.
2. To study the phases of evolution of retail sector in India.
3. To have an overview of E-Retail in India

Research Methodology:

The present study is based on secondary data. The secondary data gets collected from, government Reports, Reports by IBEM, CARE, ASSOCHAM and other private research institutes, Articles from Journals, Periodicals and Newspapers.

Indian Retail Industry

The Indian Retail industry has primarily been dominated by the unorganized segment. During FY16, the unorganized retail accounted for about 90% of the total retail revenue. Compared to the unorganized retail contribution of 15-20% to the total retail sales in countries such as U.K., U.S., Taiwan etc., the Indian figure is high. Within organized retail, food & beverage holds around 70% of the retail sector, followed by apparel and personal care as per IBEF industry study.

As per World Development Indicators database published by World Bank in February 2017, India is the 3rd largest economy in the world in terms of Purchasing Power Parity (PPP), only behind China and US. Indian GDP growth stood at 7% as on December 31, 2016 as mentioned by Central Statistics Office (CSO) and it is expected to be the same for FY17.

As per IMF, Indian economy is likely to grow by 7.2% in FY18 and 7.7% in FY19. This shows India's growth potential in Organized Retail Penetration also. Improving economy, changing demographic profile, increasing disposable incomes in hands of the middle class, changing tastes and preferences and growing urbanization along with rising discretionary spends are the main growth drivers in the organized retail market in India. CARE expects the Indian economy to grow by about 7.6%-7.8% in FY18.

Retail formats in India:

Hyper marts/supermarkets: large self-servicing outlets offering products from a variety of categories.

Mom-and-pop stores: they are family owned business catering to small sections; they are Individually handled retail outlets and have a personal touch.

Departmental stores: are general retail merchandisers offering quality products and services.

Convenience stores: are in residential areas with slightly higher prices goods due to the convenience offered.

Shopping malls: the biggest form of retail in India, malls offer customers a mix of all types of products and services including entertainment and food under a single roof.

E-Retailers: are retailers providing online buying and selling of products and services.

Discount stores: these are factory outlets that give discount on the MRP.

Vending: it is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.

Category killers: small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's.

Specialty stores: are retail chains dealing in specific categories and provide deep assortment. Mumbai's Crossword Book Store and RPG's Music World are a couple of example.

Evolution of Indian retail:

Retailing is one of the biggest sectors and it is witnessing revolution in India. The new entrant in retailing in India signifies the beginning of retail revolution. India's retail market is expected to grow tremendously in next few years. The origins of retailing in India can be traced back to the emergence of Kirana stores and mom-and-pop stores. These stores used to cater to the local people. Eventually the government supported the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. The economy began to open in the 1980s resulting in the change of retailing. The first few companies to come up with retail chains were in textile sector, for example, Bombay Dyeing, S Kumar's, Raymond's, etc. Later Titan launched retail showrooms in the organized retail sector. With the passage of time new entrants moved on from manufacturing to pure retailing.

Retail outlets such as Food world in FMCG, Planet M and Music world in Music, Crossword in books entered the market before 1995. Shopping malls emerged in the urban areas giving a world-class experience to the customers. Eventually hypermarkets and supermarkets emerged. The evolution of this sector includes the continuous improvement in the supply chain management, distribution channels, technology, back-end operations, etc. this would finally lead to more of consolidation, mergers and acquisitions and huge

investments. India's retail market is expected to grow tremendously in next few years. India shows US\$330 billion retail market that is expected to grow 10% a year, with modern retailing just beginning. In India, most of the retail sector is unorganized. The main challenge facing the organized sector is the competition from unorganized sector. Unorganized retailing has been there in India for centuries. The main advantage in unorganized retailing is consumer familiarity that runs from generation to generation. It is a low-cost structure; they are mostly operated by owners, have very low real estate and labor costs and have low taxes to pay.

Chart 1: Evolution of retail in India

<p>Initialisation Pre-1990</p>	<ul style="list-style-type: none"> • Migration of people from villages to urban areas • Opening up of small stores for necessity items • Advantage of acquaintance with the customers thereby resulting in repeat sales • However, limited customer base within locality • During the period 1960s to 1980s, domestic textile majors ventured into retailing via company-owned outlets. • Few manufacturers opened their own outlets such as Vimal, Bombay Dyeing, Raymond's, etc. Footwear makers such as Bata and Metro also established their own chains of retail stores.
<p>Conceptualisation 1990-2005</p>	<ul style="list-style-type: none"> • With liberalisation and opening up of Indian economy during the early 1990s, many corporates and first generation entrepreneurs entered retail business and investments by international retail firms increased in India. • For e.g. the RPG group launched Spencer's in Bangalore in 1991. During the same year, The Raheja's, launched Shoppers Stop in Mumbai. • In 1998, Tata group entered the retail business with the brand Westside. Brands like McDonalds, Adidas, Reebok, Nike, Levi Strauss, Lee, Wrangler, Louis Philippe, Pepe Jeans, etc. entered Indian retail market. • Growth in apparel retail format was the most significant during this period.
<p>Expansion 2005-2010</p>	<ul style="list-style-type: none"> • This period was marked by the growing share of organised retail in the total Indian retail sales pie with substantial investments by large Indian corporates. • Pantaloon retail (now Future retail) opened 'Home town' and 'E-zone' in 2006. Reliance entered the retail business with 'Reliance fresh' in 2006. • Besides the above, in the year 2006, government changed the FDI policy by allowing foreign retailers to acquire 51% stake in JV with an Indian firm. This saw several premium brands such as Armani, Versace etc entering the Indian market. • During the period 2008-2009, due to recessionary impact seen in the Indian economy, many over-leveraged retail stores had to shut down.
<p>Consolidation & Growth 2010 onwards</p>	<ul style="list-style-type: none"> • With intense competition in the urban market, retailer started to setup shops in the smaller cities and rural areas. Also, India witnessed emergence of many online brands such as Flipkart, Myntra, Homeshop18 etc.. • In 2012, GoI made major changes in retail FDI policy by allowing FDI upto 100% in single brand and upto 51% for multi brand. • E-commerce emerged as one of the major segments

Source: Care Industry research, June 2017.

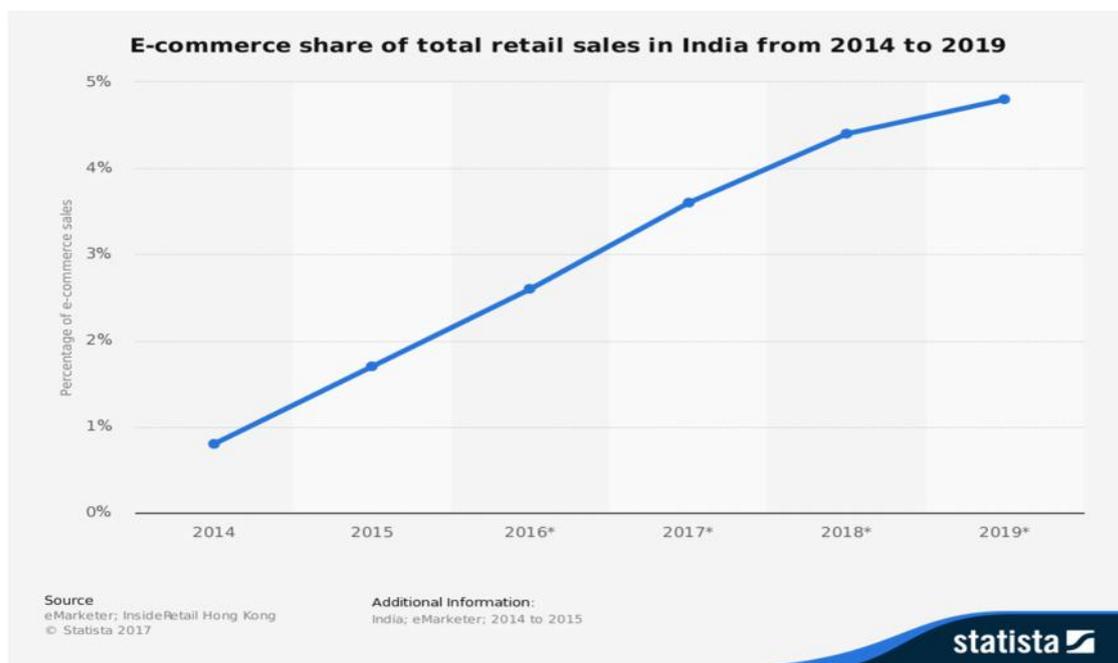
Organized retail business in India is very small but has widened its scope with the growing share of organized retail in the total Indian retail sales pie with substantial investments by large Indian corporates. Pantaloon's retail (now Future Retail) opened 'Hometown' and 'E-zone' in 2006. Reliance entered the retail business with 'Reliance Fresh' in 2006. Besides the above, in the year 2006, government changed the FDI policy by allowing foreign retailers to acquire 51% stake in JV with an Indian firm. This saw several premium brands such as Armani, Versace etc. entering the Indian market. Also, India witnessed the emergence of many online brands such as Flipkart, Myntra, and Homeshop18 etc. In 2012, Government of India made a major change in retail FDI policy by allowing FDI up to 100% in single brand and up to 51% for multi-brand.

E-Retail in India

E-commerce is expanding steadily in the country. With advancements in quality of internet access, payments and computing on mobility platforms, changed consumer behavior with a large active internet user base, customers have the ever-increasing choice of products at the lowest rates by various retailers. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Currently India's internet penetration stands at around 35%.

E-tail in India can be broadly categorized as:

- **Domestic** – sale within India (Amazon, eBay, Flipkart, Snapdeal, Shoppers-Stop, Reliance, Croma, etc.)
- **Cross-Border** – sale in India from outside India. (The U.S. is one of the top ten countries for cross-border shopping for Indian buyers. Baby supplies, toys, clothing, footwear, automotive, wearables and accessories, jewelry, watches, personal care and health products and digital entertainment and educational services are some of the leading categories for cross-border B2C e-commerce. Challenges restricting the growth of cross-border e-commerce include high shipping costs, import duties and complexities in returns and exchanges)
- **B2C** – sale between retailer and consumer (Flipkart, Myntra, Jabong, Amazon, Snapdeal, eBay, PayTM, Shopclues, Pepperfry, Zomato, BigBasket)
- Marketplace and Inventory based
- Single brand and multi brand



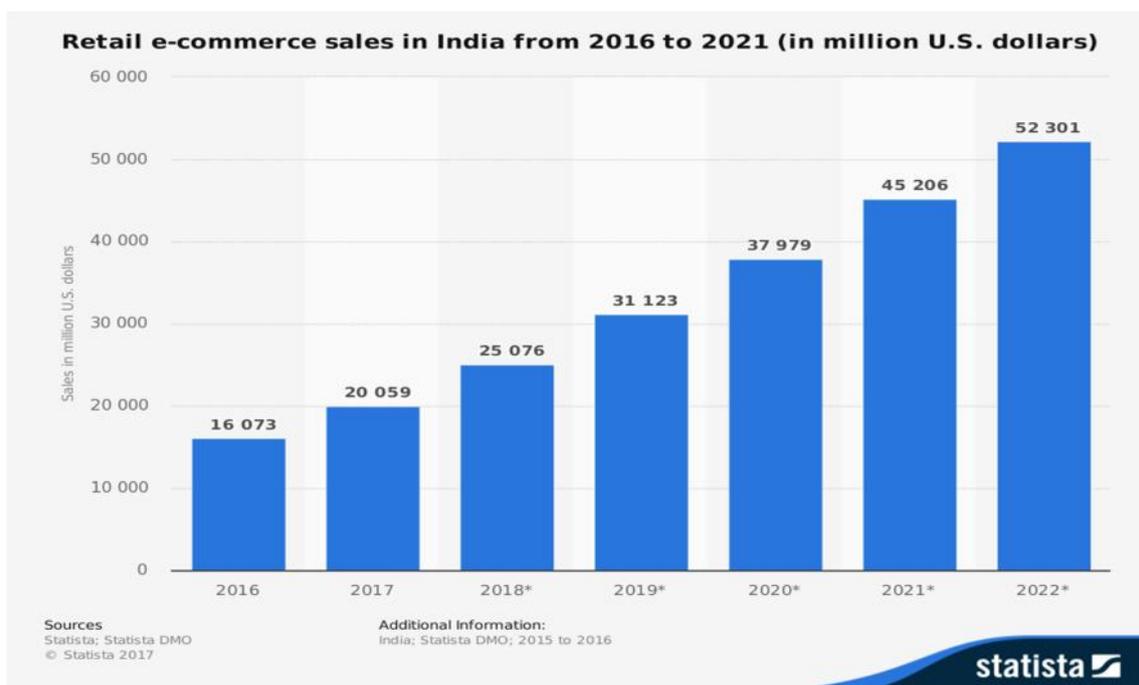
Source: eMarketer; Inside Retail Hong Kong Statista 2017.

This statistic shows retail e-commerce sales as a percent of total retail sales in India from 2014 to 2015, and a forecast until 2019. In 2015, e-retail sales accounted for 1.7 percent of all retail sales in India, this figure is expected to reach 4.4 percent in 2019.

Online retail business is the next generation format which has high potential for growth in future. After conquering physical stores, retailers are now foraying into the domain of e-retailing to leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

It has been found that India's e-commerce is one of the fastest growing channels for commercial transactions. E-commerce in India is growing at an annual rate of 51%, the highest in the world, and is expected to jump from \$30 billion in 2016 to \$120 billion in 2020 according to an ASSOCHAM-Forrester study paper. The retail sector is also showing a promising trend of 11% CAGR and is expected to reach \$1 trillion by 2020. According to ASSOCHAM, the value of online retail purchases made by consumers in India is projected to cross USD100 million by 2017.

The online retail growth has followed a disruptive course across markets. In relatively mature markets, like US, where the organized retail penetration is high, multi-channel retail chains lead to online markets. While in newer markets like India (with about 10% organized retail of which about 1.2% share held by e-tail) and China (with 20% organized retail), web-only players are dominating the market given the low organized retail penetration.



Source: Statista DMO, Statista 2017.

This statistic provides the retail e-commerce volume in India from 2016 to 2022. In 2016, the sale of physical goods via digital channels in India amounted to 16.07 billion U.S. dollars in revenues. India is one of the fastest-growing e-commerce markets worldwide, with millions of new internet users taking advantage of cheap mobile connections to send mobile messages, watch online videos, use mobile services, and of course, to shop. As of 2015, only 26 percent of the local population was using the internet; almost ten times the audience size from a decade prior. As of 2015, most online users in India were male, and the same held true for online shoppers. In India, men accounted for almost two thirds of online shopping audiences. Despite this imbalance in online presence and digital spending, female online shoppers are estimated to account for 42 percent of all Indian e-retail spending in 2020, up from only 20 percent of total retail e-commerce expenditure in 2015.

E-Retailing –Prospects.

1. E-commerce is steadily expanding in the country where consumers have the ever-increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend is expected to continue in the years to come. Retailers could leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

2. Although the share of modern retail penetration in the country is not pleasing, there is still a lot to cheer as consumer spending patterns and increasing disposable income levels continue to evolve at a fast pace. With many international brands entering the market, there is ample opportunity and dynamism for the industry. Also, the existing players are working towards reinventing ways to keep up with the pace of growth in the sector. Nevertheless, there is a huge untapped potential for the growth of modern retail in the top six retail markets (Delhi, Goa, Kerala, Maharashtra, Karnataka, Mizoram) in India as per the Retail Potential Index of National Council of Applied Economic Research (NCAER, State Potential Index 2016).

3. With expected transition from offline stores (physical stores) to online stores by many players in the retail industry to compete with the local kirana shops, with home delivery, cash on delivery options, the shop sizes would comparatively decrease while the number of smaller stores might go up. Also, with markets being more organized, the shift from unorganized retail market to organized retail market is expected to happen going forward.

4. Also, to promote its Make in India campaign with job creation at its core, the government is considering allowing 100% foreign direct investment (FDI) in the multi-brand retail – if the products are made in India. However, the final decision is yet to be taken. If the government allows 100% FDI in multi-brand retail, the domestic industry is expected to get a further boost.

5. In July, the government of India has introduced the Goods and Services Tax (GST) across the country. Hailed as the One Nation One tax policy, this unified taxation across the nation aims to eradicate tax hurdles and make the whole taxation process flexible and unified. Like all other businesses, e-commerce also has been affected by it. As an entrepreneur in the e-commerce industry, you need to be aware of the impacts of this unified taxation policy and accordingly adapt to changing situations. While not all areas of the GST will impact e-commerce, but there are some areas that will impact the online businesses. By having an idea of the provisions within the GST that are applicable for the e-commerce sector, you can start doing the needful and make your business compliant with the latest taxation process. A large part of the businesses in the e-commerce sector fall under the unorganized business sector, and with the introduction of GST, they have now been included in the ambit of taxation.

i. Trade barriers will be minimized as E-Commerce will now be able to follow a unified tax policy across all locations and states. Price will now be determined on a single tax, and not arbitrary taxes imposed by states.

ii. An E-Commerce business will now have to collect the tax at the rate of two percent at source on the net value of the sales. Previously this used to vary across states.

iii. E-Commerce operators will have to be compliant as with the introduction of GST, E-Commerce businesses will now need to report all supplies and the tax paid on them monthly. Moreover, the business must provide information about the product and service code of each item level on an individual basis.

iv. According to the new GST process, it is now mandatory for suppliers in the E-Commerce business to register under the GST scheme irrespective of the limit of 20 lakhs. You cannot opt for the composition scheme and pay a flat rate of two percent. Already around 95% have enrolled in the tax scheme and it is expected that more will follow suit.

Conclusion:

India is one of the fastest-growing e-commerce markets worldwide, with millions of new internet users taking advantage of cheap mobile connections to send mobile messages, watch online videos, use mobile services, and of course, to shop. E-commerce is probably creating the biggest revolution in the retail industry, and this

trend is expected to continue in the years to come. Online retail business is the next generation format which has high potential for growth in future. The study could reveal the fact that the evolution pattern of Retail in India is laying a level playing field for E-Retailing formats in India to foster at the fastest speed.

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